



Approved For Release 2004/06/29 : CIA-RDP83M00174R001100010013-1

WASHINGTON, D.C. 20301

MAY 6 1975

S-0047/DR

MEMORANDUM FOR THE DEPUTY SECRETARY OF DEFENSE

SUBJECT: Soviet Costing (U) - ACTION MEMORANDUM

1. (C) Attached is a report indicating that CIA has probably been misjudging overall Soviet military expenditures by almost one hundred percent.

2. (C) This indication is, for me, only a capstone to other indications of error of this magnitude. I have attached a previous memo in which I made that case.

3. (S) I agree with the note of caution on page 2 of the CIA memo to the SecDef. We should, for the time being, resist the temptation to use this information for policy purposes, at least on a public scale or in a manner likely to cause it to become public.

Those with the bureaucratic interest in maintaining that the old system was not this inaccurate are already trying to make the case that information is suspect. Some time will be required

hold outs for the old costing methodology (a lot of GS ratings are on the line in the matter).

4. (C) I think it would be valuable to you to have a chat with my man, Mr. Michaud

I have arranged for Mr. Marshall, myself, and Michaud to talk to the SecDef.

(Signed)

DANIEL O. GRAHAM, LTG, USA

3 Enclosures

1. CIA memo to SecDef,  
dtd 2 May 1975 (S)-Y-1273

2. DIA memo, Soviet  
Defense Burden, dtd  
7 Jan 75 (S)

3. DIA memo, Costing,  
dtd 1 Feb 75 (C)

DANIEL O. GRAHAM  
Lieutenant General, USA  
Director

DIA review(s) completed.

Classified by *DIA*  
SUBJECT TO CHIEF OF DEFENSE  
SCHEDULE OF DECLASSIFICATION  
AUTOMATICALLY DECLASSIFIED AT TWO  
YEAR INTERVALS  
DECLASSIFIED ON 31 DECEMBER 1982

SENSITIVE

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## DEFENSE INTELLIGENCE AGENCY

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JAN 7 1975

S-0006/DR

MEMORANDUM FOR THE SECRETARY OF DEFENSE  
THE DEPUTY SECRETARY OF DEFENSE  
THE CHAIRMAN, JOINT CHIEFS OF STAFF  
ASSISTANT CHIEF OF STAFF FOR INTELLIGENCE,  
DEPARTMENT OF THE ARMY  
DIRECTOR OF NAVAL INTELLIGENCE  
ASSISTANT CHIEF OF STAFF, INTELLIGENCE,  
DEPARTMENT OF THE AIR FORCE  
DIRECTOR OF INTELLIGENCE, U. S. MARINE CORPS

SUBJECT: Soviet Defense Burden (U)

1. (S) For over ten years the U. S. intelligence community has attempted to assess the burden of the Soviet defense effort through a direct-costing method. This is a complex, machine-assisted methodology which presumably applies to hardware, installations and units. Soviet R&D is not amenable to this method, so it is derived from attempts to identify that portion of Soviet "science" budgets which should be tagged as going for military purposes. The above is oversimplified, but basically describes the scheme.

2. (S) Over the years, I have had grave doubts that this method hit anywhere near the mark as a measure of defense burden on the Soviet economy. The end results of applying this methodology to the problem have simply not been credible. Even perfunctory inspection convinces a sensible man that the figures are far too low. For instance, the CIA input to NIE 11-4-72 showed that for the years 1960 to 1972, the Soviets had increased military expenditures at the average rate of 1½ per cent per annum. During that period the Soviets deployed their 1,600 ICBMs (in six different models, not counting variants); deployed over 7,000 SAM launchers (SA-2, -3, -5); put an ABM defense around Moscow; deployed a vast radar system, including Hen House; re-equipped their air forces with Fishbeds (A through K models), Fitters, Flagons, Firebars, Brewers, Fiddlers, Blinders, and Foxbats; deployed a modern surface navy and an SLBM force; replaced most of their tanks and APCs with new models; developed and launched a large number of military space support systems. This is only a partial list, but enough to deny on inspection a mere 1½ per cent per annum increase in Soviet military expenditures over those years. After a DIA refusal to buy,

cc : Director, DIA

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the costers went back to the drawing board and produced new figures indicating a 2.5 per cent per annum average increase. The new figures derived primarily from an attempt to account for inflation. My fundamental problem with the method was not solved. (The new figures demonstrated that the method could be manipulated to produce more palatable results.)

3. (S) As of now, the direct-costing approach yields these CIA-reported basic figures (see enclosure 1):

Current ruble defense budget	26B
Current "dollar" defense budget	80B
Percentage of GNP	6 per cent

In a summary of these results recently released by CIA (see attached), these figures have been nudged upward to 93 billion dollars (about 8 per cent of GNP) on the basis of "possible error" in the methodology. This admission of error to the low side in the methodology is encouraging. My argument is no longer with the view that the method has produced the most credible estimates, but with the probable margin of error in the results. The protagonists of direct costing implicitly admit to an error of about 16 per cent; I maintain that the error is much larger.

4. (S) In recent months, evidence has accumulated supporting the existence of a much larger error in the methodology as it  
25X1 applies to burden:

c. Research of Soviet literature by Colonel Odom (recently returned attache from Moscow) turned up the following statement from a fairly well-known Soviet economist in a book:

"The classics of Marxism and Leninism in the theory of manufacture removed themselves from the manufacture of military hardware. In our tense times, when the expenditures for the preparation for war achieve 20 per cent in peace time and the expenditures during the war period reach 60-70 per cent of the national revenues, and when these tremendous expenditures cause a very substantial influence on the manufacture on all combined and industrial relations on all, sharp economic and political consequences result from it, there appears an objective necessity to consider and analyze the connections and interdependences of the production of military hardware with the manufacture of products of I and II subdivisions."

(G. S. Kravchenko, Economics of the USSR in World War II, Moscow, 1970.)

Of course, one may quibble about whether "national revenues" are equivalent to "GNP." I submit that this is as close to GNP as a Soviet economist can get.

5. (S) In sum, while I believe that while pressure on analysts to produce more realistic estimates of Soviet defense burden is having some effect, the estimates remain too low to be credible.



DANIEL O. GRAHAM  
Lieutenant General, USA  
Director

2 Enclosures  
1. CIA National  
Intel Draft, USSR  
Budget Analysis





## DEFENSE INTELLIGENCE AGENCY

WASHINGTON, D.C. 20301

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C-0019/DR

1 FEB 1975

MEMORANDUM FOR DI AND DE

SUBJECT: "Costing"

Outlined below is my basic position on this matter. I expect either to be persuaded that I am wrong or that I be supported in these views in interagency forums and papers. Thus far it is neither one way or the other in this Agency. I do not wish to be arbitrary, but I insist that it will be one way or the other and soon. If analysts and/or estimators wish to challenge these views, they must come forward with their arguments now or get aboard.

1. Direct costing has usable validity when applied to discrete areas of inquiry.

a. Hardware acquisition where inventory data are reasonably attainable. ICBMs and tanks, yes; gas masks and conventional warheads for FROGs, no. Even in the most valid areas, however, the margins of error are large because of the inherent difficulty of judging Soviet efficiency. This is essentially what the ever present "ruble-dollar ratio" arguments are all about.

b. Certain military construction costs.

2. As we move away from these areas of inquiry, where our basic physical data and factors are reasonably good, into the areas of O&M, personnel costs, consumables, training, war reserves, medical support and the like, there is a sharp increase in probability of gross error.

3. Additional problems derive from hidden military costs, such as:

- The reservist program
- Pre-induction training
- Civil defense, including the persistent costs of industry dispersal

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SCHEDULE OF EXECUTIVE ORDER 11652  
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- The costs of military "skimming the cream" in industry in general
- The "civil" sector support in transportation, communications, etc.

4. R&D costs which are not derivable from direct costing and which are in large part not divisible into military versus civil components.

For the above reasons, aggregated figures for Soviet military expenditures, whether expressed in dollars or rubles, (although dollars are worse), are not of sufficient validity for use in national or departmental planning or decision-making. Indications from other sources that the aggregated costs presented by CIA are off by as much as 100 per cent cannot be dismissed out of hand. There is nothing in the direct costing methodology which gives me more confidence in a 30 billion ruble total Soviet budget than a 50-plus billion ruble budget.



DANIEL O. GRAHAM  
Lieutenant General, USA  
Director

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**SECRET**

## SECRETARY OF DEFENSE ROUTING SLIP

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THE SPECIAL ASSISTANT			DIR, TACCS		
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SECRETARY OF THE AIR FORCE			DEF ADV RES PROJ AGENCY		
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ASD (Legislative Affairs)			NATIONAL SECURITY AGENCY		
ASD (Manpower and Reserve Affairs)					
ASD (Program Analysis and Evaluation)					

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REPLY DIRECT (Fwd cy of reply for Sec of Def records)	COORDINATE REPLY WITH
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REMARKS

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